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# **National Intelligence Bulletin**

State Dept. review completed

ARMY and DIA review(s) completed.

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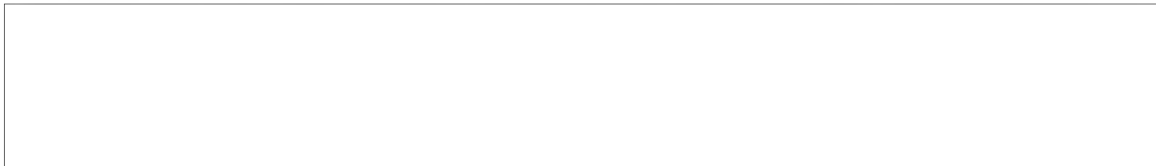
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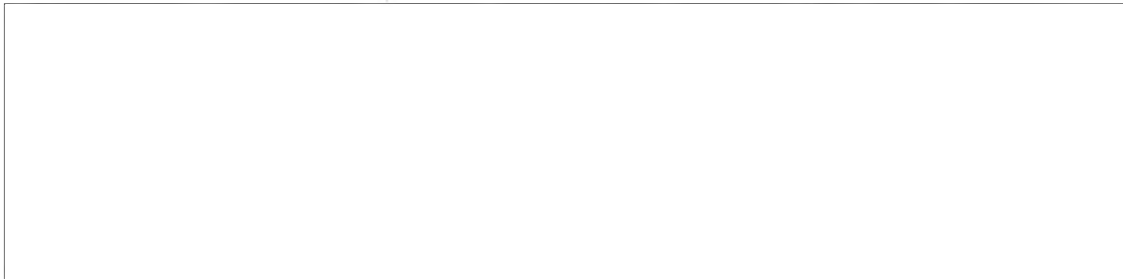
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MIDDLE EAST

Little military activity was observed in the Middle East yesterday. Israeli aircraft conducted several reconnaissance flights along the UN buffer zone with Egypt, but no Israeli air activity was noted over Lebanon or along the buffer zone with Syria.

The Israeli reserve callup of the last few days apparently is more extensive than originally believed. The mobilization that began on Friday was initially reported to have applied only to the northern command. According to the US defense attaché in Tel Aviv, reservists assigned to the southern command--which is responsible for defense of the Sinai--also have been recalled to active duty. The Israelis have admitted to mobilizing only about 10,000 reservists.

US army intelligence has reported that at least one Israeli officer training in the US was alerted by the Israeli embassy on Saturday to be prepared for immediate recall home to participate in future military operations.

On the Egyptian side, there was no unusual military activity that would indicate hostile intent. US officials in Cairo have reported that the situation seems to be calming down and that there were no signs of a heightened Egyptian military alert yesterday.

Egyptian aircraft flew several reconnaissance missions, but no incidents were reported.

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ISRAEL

Israeli police yesterday quickly broke up the latest in a series of anti-Israeli disturbances in the West Bank that followed PLO leader Arafat's appearance before the UN General Assembly last week. The disturbances occurred in East Jerusalem, in a Palestinian refugee camp north of the city, and in several West Bank towns. Defense Minister Peres had warned local Arab leaders on Sunday that, if they failed to maintain order, Israeli military authorities would crack down "unrestrainedly."

Most of the demonstrators have been Arab high school students who have set up roadblocks and hurled rocks and insults at Israelis. An Arab teenage girl died from injuries suffered during a skirmish with Israeli police attempting to break up one such demonstration. Government authorities have imposed a curfew on some West Bank towns and closed some of the schools.

In the months ahead, Tel Aviv is likely to find itself confronted with increasing anti-Israeli sentiment in the West Bank and Gaza. Recent soundings by the US consul general in Jerusalem indicate that West Bank Palestinian nationalist feelings were given a strong boost by Arafat's speech to the General Assembly. Widespread resentment of Israel's occupation was further reinforced by the economic austerity measures Tel Aviv announced last week.

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ITALY

The outcome of yesterday's meeting of the Christian Democratic Party directorate illustrates the extent to which internal differences in the party are hampering efforts to end Italy's six-week-old political stalemate. The directorate dodged the issue of whether to endorse Prime Minister - designate Moro's proposal for an all - Christian Democratic caretaker government. Instead, the party leaders changed Moro's negotiating mandate; he is now to seek a two-party coalition between the Christian Democrats and the small Republican Party.

The main reason for the controversy was the refusal this weekend of the Social Democratic Party to support Moro's proposal. The Social Democrats maintain that since Moro's government would rely on Socialist support, it would be "too open" to the Communists. The only way out, according to the Social Democrats, is through a new parliamentary election, an alternative the other governing parties oppose.

Moro has been trying to put the Communist issue on ice temporarily and to work out a compromise on economic policy acceptable to most other parties. He was near such an accord last week, and the Socialists and Republicans had offered parliamentary support for his proposed all - Christian Democratic cabinet. The Social Democrats, whose few parliamentary votes would not have been required for a majority, could have then been dropped from the government.

The Christian Democratic leadership, however, divided sharply on the question of Social Democratic participation. In the end, Moro--who leads the Christian Democratic left--could not muster enough support in the center and right-wing factions of his party to go ahead without the Social Democrats. The Christian Democratic right, in particular, fears that the exclusion of the Social Democrats would give a leftist complexion to a Christian Democratic government and open the party to attack from the right.

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By instructing Moro to try for a two-party coalition with the Republicans, the Christian Democrats have avoided a decision that would have split them down the middle, but they have only postponed the question of the next government's political coloration.

The Christian Democrats and Republicans together do not have a majority. If the Republicans agree to cooperate--a decision they may make today--the two parties will still have to get Socialist support in order to win a vote of confidence. The Christian Democrats evidently hope the Social Democrats will reconsider and support a Moro-led government.

The Christian Democrats' indecision strengthens the likelihood that Italy is in for a protracted period of weak government by a caretaker administration. It casts additional doubt on that party's ability to reverse the recent slide in its fortunes.

Scattered local elections over the weekend showed substantial Christian Democratic losses and notable gains for the Communists and Socialists. Although these contests have only marginal significance for national election patterns, the left will portray the results as further evidence of Christian Democratic decline.

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HUNGARY

Budapest hopes Foreign Trade Minister Biro's visit to the US this week will provide a closer reading of prospects for receiving most-favored-nation status and lay the groundwork for subsequent bilateral economic relations.

In addition, Biro has a shopping list that includes requests for Export-Import Bank credits, more offices in the US, and a joint US-Hungarian trade commission. Budapest is particularly interested in a timetable for Export-Import Bank credits. The Hungarians recently asked West German Economics Minister Friderichs for a \$3.5-billion loan to help finance imports from 1976 to 1980. Biro might make a similar, but smaller, request of the US.

US-Hungarian trade is at an all-time high, reaching about \$100 million during the first nine months of this year, compared with about \$50 million in 1973. Hungary may achieve its first annual trade surplus with the US in more than a decade, in large part because of Hungarian sales in the US market of \$35 million in gold coins. Imports from the US continue to be predominantly agricultural--soybeans, hides, and farm machinery.

In its trade with the West as a whole, Hungary incurred a \$400-million deficit during the first six months of this year, mainly as the result of higher prices for Western chemicals, oil, sugar, and cotton. During the same period, the prices of Hungarian imports from the West went up by more than 40 percent from a year earlier, while export prices rose by only 25 percent.

The Hungarians have responded by expanding coal production, restricting the use of oil products for industrial and consumer use, and raising the domestic prices of fuels. They have also moved to liberalize selectively their economic relations with the West by permitting the first equity ventures in Hungary and by allowing Western firms to open offices there.

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